

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Waterford, Michigan</u>	County Oakland
Audit Date December 31, 2003	Opinion Date May 28, 2004	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **Charter Township of Waterford, Michigan**

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**Financial Report  
with Supplemental Information  
December 31, 2003**

# Charter Township of Waterford

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## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Waterford  
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Waterford, Michigan as of and for the year ended December 31, 2003, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Waterford, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Waterford, Michigan as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and the pension system schedule of funding progress identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Waterford, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2004 on our consideration of the Charter Township of Waterford, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003. In adopting this statement, the financial statements now include a management's discussion and analysis, government-wide full accrual financial statements, and reorganized fund-based statements. In addition, the governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

*Plante & Moran, PLLC*

May 28, 2004

# **Charter Township of Waterford**

## **Management's Discussion and Analysis**

### **New Financial Reporting**

Starting with fiscal year 2003, the Charter Township of Waterford, Michigan (the "Township") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers and investors with a better understanding of how the Township's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Township. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Township's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Township's financial health.

The financial staff in the offices of the Fiscal & Human Resources, Clerk, Treasurer, and Public Works have worked diligently to make the necessary changes to comply with these new accounting standards.

The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2003. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

The following represents the most significant financial highlights for the year ended December 31, 2003.

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$750,000 from the Township's original budget projection. This reduction was the result of reduced sales tax revenues collected by the State and changes in the distribution formula used by the State. Over the past few years, the State has overestimated its projected revenues to be shared with local governments. Once it became clear that the revenue would decline, the Township reacted by instituting an early retirement plan, reducing staffing through attrition and scaling back large capital purchases, including police cars. All departments were asked to reduce total expenditures by 5 percent. As a result of these efforts, the Township was able to avoid dramatic service cuts and deficit spending.

# Charter Township of Waterford

## Management's Discussion and Analysis (Continued)

- The Township experienced dramatic increases in employee health and pension costs. Total health insurance costs in 2003 amounted to approximately \$5,052,000. This is an increase of approximately \$896,000 (19.4 percent) from the prior year. The Township anticipated a 15 percent increase in health insurance based on national trends. Total contribution to the Police and Fire and General Employees pension systems totaled just under \$4,000,000. This is an increase of approximately \$850,000 (27.0 percent) from the prior year. The increase in pension costs was due primarily to three years of poor investment returns on pension fund assets.
- On the positive side, property tax revenues in 2003 were approximately \$2,700,000 (13.0 percent) higher than the prior year. Over half of the increase was due to the 0.63 millage property tax increase for the fire department. Without the millage increase, the Township would have only realized growth of \$1,200,000 (6.0 percent) in property tax revenue.
- With overall expenditures rising 8 percent and overall revenue only rising 1 percent, coupled with the General Fund balance declining to a level of only 3 percent of annual expenditures, in 2003, the Township was forced to begin a slow process to adapt to the structural problems with municipal financing. Operations are being downsized through attrition. During 2003, a total of 15 positions were eliminated. Five of those positions were in the police department, four in the building and engineering department, and three in the parks and recreation department.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (see page 12) and the statement of activities (see pages 13 and 14) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell the reader how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.



# Charter Township of Waterford

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in millions of dollars):

	Governmental Activities		Business-type Activities		Total	
	2002	2003	2002	2003	2002	2003
<b>Assets</b>						
Current assets	\$ 45.9	\$ 37.8	\$ 33.1	\$ 34.9	\$ 79.0	\$ 72.7
Noncurrent assets	65.0	64.3	79.6	75.1	144.6	139.4
Total assets	110.9	102.1	112.7	110.0	223.6	212.1
<b>Liabilities</b>						
Current liabilities	33.0	28.1	2.9	4.4	35.9	32.4
Long-term liabilities	14.9	13.6	12.2	9.6	27.1	23.2
Total liabilities	47.9	41.7	15.1	14.0	63.0	55.6
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	48.4	47.8	63.7	62.5	112.1	110.3
Restricted	3.6	4.4	33.9	33.5	37.5	37.9
Unrestricted	11.0	8.2	-	-	11.0	8.2
Total net assets	<u>\$ 63.0</u>	<u>\$ 60.4</u>	<u>\$ 97.6</u>	<u>\$ 96.0</u>	<u>\$ 160.6</u>	<u>\$ 156.4</u>

The Township's combined net assets decreased approximately \$4,200,000 (2.6 percent) from the prior year. The governmental activities portion of net assets decreased approximately \$2,600,000 (4.1 percent) from the prior year.

With these decreasing revenue streams caused by the reduction in state-shared revenue and other economic factors affecting municipal finance, it is growing more difficult for municipalities to fund essential community costs. With the exception of local governments with a significantly growing tax base due to new development, there are structural problems with the municipal finance model in the State. Municipalities in Michigan face numerous challenges to their ability to raise revenue. In general, these factors would include the restricted growth of property tax revenue under Proposal A and the Headlee Amendment, decreased investment returns, and overall increasing health care and employee benefit costs. These items have impacted many other municipalities in Michigan where the municipality's growth in expenditures is outpacing the growth in revenues for an extended period of time.

# Charter Township of Waterford

## Management's Discussion and Analysis (Continued)

The following table shows the major revenue and expenditures as a whole, for both the governmental and business-type activities (in millions of dollars). The bottom of the table shows the changes in net assets during the current year. In future reports, the Township will show this table in a comparative format with the prior year data. Due to being the first year of implementation, the prior year data is not provided.

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 7.2	\$ 12.1	\$ 19.3
Operating grants and contributions	1.3	-	1.3
Capital grants and contributions	-	1.2	1.2
General revenue:			
Property taxes	22.6	-	22.6
State-shared revenue	6.6	-	6.6
Unrestricted investment earnings	0.4	0.4	0.8
Cable franchise fees	0.7	0.1	0.8
Miscellaneous	0.1	-	0.1
Total revenue	38.9	13.8	52.7
<b>Program Expenses</b>			
General government	5.7	-	5.7
Public safety:			
Police	14.0	-	14.0
Fire	8.1	-	8.1
Public works	0.7	-	0.7
Building inspection	1.6	-	1.6
District court	3.1	-	3.1
Community and economic development	2.3	-	2.3
Recreation and culture	5.2	-	5.2
Interest on long-term debt	0.8	-	0.8
Water and sewer	-	15.4	15.4
Total program expenses	41.5	15.4	56.9
<b>Change in Net Assets</b>	<b>\$ (2.6)</b>	<b>\$ (1.6)</b>	<b>\$ (4.2)</b>

# **Charter Township of Waterford**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The Township's governmental revenues totaled \$39,000,000, with the greatest revenue source being property taxes. Property taxes make up approximately 57.9 percent of total governmental revenue. Over the past few years, state-shared revenue, building permits, and interest income have all declined. One major revenue source, District Court fees and fines, has remained flat over the past few years. These flat and declining revenues, combined with limited property tax growth due to Proposal A and Headlee, have resulted in a dramatic shift in the burden for funding government. Taxpayers in Waterford have been willing to absorb some of this burden through special millages to fund police, fire, and library services.

Although Waterford is relying more on property tax revenues, the Township still maintains a relatively low millage rate compared to similar sized communities. The Township's ratio of property tax dollars collected per resident (\$324.32 in 2003) is the lowest of the top 10 population sized communities in Oakland County.

Total governmental expenses for the Township were \$42,000,000. This exceeded revenues by approximately \$2,600,000. Labor cost make up the greatest portion of the Township expenses. As mentioned above, the Township has experienced large increases in both health insurance and pension costs. Over the past several years, the Township has also realized significant increases in both union and non-union employee wages to stay competitive in the labor market.

As in most municipalities, labor cost makes up the greatest portion of the budget. This leads to significant cost reductions having to be made from this area. In adapting to the increasing cost and declining revenue, the Township has reduced staffing through an early retirement program and attrition. Much of the reduction has been in the police department and building and engineering department. These departments grew in the past as a result of federal grants and fees from a high level of construction activity. As the grants and fees have begun to decline, these departments are being slowly reduced to match the activity levels through attrition. As employee cuts become necessary, the Township has made significant efforts to relocate employees within the Township. Of these layoffs previously mentioned, some of these employees were absorbed into vacancies in other departments.

### **Business-type Activities**

The Township's business-type activities consist of the Water and Sewer Fund. We provide water through a Township owned and operated ground water system. Sewage treatment is provided to customers through Oakland County as a customer of the Detroit Water and Sewer System.

System revenues are primarily from fees paid by customers based on use. User fees make up 87.7 percent of all revenues. The Township conducted a rate analysis in late 2003. Based on that analysis, a rate increase is planned for 2004 in order to properly fund the water and sewer expense level.

# **Charter Township of Waterford**

## **Management's Discussion and Analysis (Continued)**

The business-type activities expenditures totaled approximately \$15,400,000 in 2003. As in the governmental activities, a large portion of the expenditures is labor related. These costs have also been impacted by increases in health and pension benefit costs.

### **The Township's Funds**

Analysis of the Township's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board created funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major governmental funds for 2003 include the General Fund, Police Fund, Fire Fund, and the Improvement Revolving Fund. The Township's major business-type funds consist of the Water and Sewer Fund.

### **General Fund**

The General Fund pays for most of the Township's governmental services, the most significant being police and fire, which incurred combined expenditures of approximately \$21,400,000 during 2003. Approximately \$9,500,000 of these expenditures were funded by the General Fund. The remaining expenditures were funded by special property tax millages of approximately \$11,300,000, state and federal sources, licenses and permits, and charges for services.

Other major activities in the General Fund include the 51<sup>st</sup> District Court, the parks and recreation department, and all general government administrative and central services operations. Some of these activities rely on fees for services to help offset costs and some do not generate any significant service-related revenue. Therefore, many of these activities rely heavily on property taxes and state-shared revenue to subsidize their operations.

In 2003, the General Fund fund balance declined by approximately \$1,700,000. This significant decrease in the fund balance was due in large part to the decreasing state revenues and increasing labor costs. As mentioned above, the Township took significant measures to address this declining fund balance, including the elimination of positions. Because the Township had wanted to develop a healthy fund balance during previous good economic times, it was able to bear the impact of a poor economy on operations during the past few years. However, the current fund balance level will make it difficult to absorb future significant General Fund losses.

At December 31, 2003, the Township's General Fund fund balance is approximately \$764,000. This amount represents approximately 3.3 percent of 2003's annual expenditures. This level of fund balance is well below the recommended level of between 10 and 15 percent of annual expenditures. At this level of fund balance, the Township does not have the ability to offset future General Fund losses. Due to structural problems with state funding and health care cost increases projected to be three to four times the rate of inflation over the next few years, it is likely that further cuts in staff and services will be necessary.

# **Charter Township of Waterford**

## **Management's Discussion and Analysis (Continued)**

### **Police Fund**

The Police Fund covers the operation of the police department. Major revenues include \$7,000,000 from the Township's General Fund and an additional \$6,100,000 in special millage revenue. The department receives a small amount of its revenue from fees, grants, and interest on investment.

### **Fire Fund**

The Fire Fund covers the operations of fire prevention, suppression, and emergency medical services. In 2003, the department received approximately \$2,500,000 from the General Fund and approximately an additional \$5,200,000 from special millages.

The Fire Fund continues to maintain a healthy fund balance of over \$700,000. The department has plans to replace the current fire station #2 with a new facility. The fund balance should pay for a large portion of this capital project.

### **Improvement Revolving Fund**

The Improvement Revolving Fund shows a healthy fund balance. However, the Township has earmarked these monies for needed capital improvements in the Township, which is an aging community.

Beginning at the end of fiscal year 2003, the Township moved all money for major General Fund capital improvements to the Improvement and Revolving Fund. This will help to better control capital projects and the funds available to use on these projects.

### **Water and Sewer Fund**

The Water and Sewer Fund continues to maintain a healthy amount of working capital. Because revenues are derived from user fees and fees are adjusted periodically to cover expenses, the fund is relatively secure. Unlike the governmental activities of the Township, the Water and Sewer Fund does not rely on tax dollars and State aid for its financial well-being.

As previously noted, however, the Water and Sewer Fund is also impacted by increasing labor costs. Over the past few years, these cost increases have been offset by increasing productivity and growth of the system. These factors have allowed the Township to forgo increasing water rates for 11 years. Sewer rates have also remained low, with only the cost of fee increases imposed by Oakland County and the City of Detroit being passed on to customers.

Increasing labor costs, higher standards being placed on the system by both the federal and state governments, and the need to repair and maintain an aging system will require the Township to continue to monitor revenues and expenditures to ensure revenues remain at an adequate level to support the required expenditures of the systems.

# **Charter Township of Waterford**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to decrease the estimated state revenue sharing. Historically, the Township has relied on the State Department of Treasury to provide revenue-sharing payment projections. From July 2002, when we developed the 2003 budget, through December 2003, the projected revenues declined by approximately \$759,000.

Construction permit revenue was also down approximately \$221,000 from the original budget, resulting from declining building activity. This decline has been significant over the past several years. The reductions in the building and engineering department staff have offset the loss in revenue.

Interest revenues continue to be below projected levels. This is due to both the low interest rates being paid by banks and the declining amount of money available for investment.

Capital expenditures continue to pose budgeting difficulty. Many road projects that the Township and the Road Commission jointly fund have been delayed by conditions outside the Township's control. The Township has also constructed significant capital buildings in the past few years and some of these projects have experienced problems with the construction contractors and consultants. These problems consume staff time that could be used to start new projects. These delays impact the finances due to the inflationary costs of construction and lost employee time.

### **Capital Asset and Debt Administration**

The Township issued \$5,000,000 in new debt in 2003. This debt was issued for capital improvements in the Water and Sewer Department. The department was able to take care of several large projects and at the same time take advantage of low interest rates.

The Township, along with our financial consultant, reviewed the Water and Sewer Fund's debt structure. It was determined that the Township can save significant monies by defeasing sewer and water bonds issued in years with higher interest rates. The defeasances will be made to 2004.

### **Economic Factors**

There are several economic factors that challenge the Township. These items include revenue sharing, health insurance, pension cost, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation and Proposal A limits increases in individual property tax assessments to the rate of inflation.

# **Charter Township of Waterford**

## **Management's Discussion and Analysis (Continued)**

Because labor costs and demands for new service drive cost at a rate higher than the inflation, it has forced local governments to rely on new property tax growth or voter approved tax increases to keep pace with costs.

The Township has been fortunate that the voters have approved renewals of all existing special millages over the past 30 years. Voters also approved a 0.63 millage increase for emergency medical services. This allowed the department to keep up with the increasing demand for services.

In 2004, the Township's original 1974 police millage will be up for renewal. The Township voters will also be asked to approve an additional police millage. This new millage will allow the Township to increase police department staffing levels and meet growing demands for services.

The Township has experienced modest new growth over the past decade. This has resulted in some new taxable property values. Growth in the Township has slowed recently as the availability for vacant land has diminished. Most future growth will be in the form of redevelopment. Because property taxes are the key source of Township revenue, efforts to promote redevelopment are crucial.

The Township must continue to provide a safe environment with high quality of life services in order to maintain a healthy tax base. The dynamics of Proposal A allow taxable property values to increase back to 50 percent of assessed value once a home is sold. An attractive housing market will help the Township to overcome some of the restrictions of Proposal A.

### **Contacting the Township Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Office of Fiscal and Human Resources at (248) 674-6252.

# Charter of Waterford Township

## Statement of Net Assets December 31, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 28,227,493	\$ 25,573,413	\$ 53,800,906	\$ 167,241
Receivables:				
Taxes	9,428,804	-	9,428,804	-
Customers	-	4,110,034	4,110,034	-
Special assessments	760,536	3,946,934	4,707,470	-
Accrued interest	28,872	118,176	147,048	-
Due from other governmental units	1,109,969	-	1,109,969	62,930
Rehabilitation revolving	1,848,736	-	1,848,736	-
Other	145,073	2,800	147,873	-
Internal balances	(1,161,280)	1,161,280	-	-
Restricted assets (Note 10)	-	523,374	523,374	-
Capital assets - Net (Note 4):				
Nondepreciable capital assets	27,603,108	3,513,728	31,116,836	-
Depreciable capital assets - Net	34,059,591	71,070,449	105,130,040	-
Total assets	102,050,902	110,020,188	212,071,090	230,171
<b>Liabilities</b>				
Accounts payable	1,192,444	1,692,490	2,884,934	9,582
Accrued and other liabilities	320,158	144,112	464,270	-
Due to other governmental units	62,930	-	62,930	41,097
Deferred revenue (Note 6)	23,764,361	-	23,764,361	-
Noncurrent liabilities (Note 7):				
Due within one year	2,743,880	2,621,724	5,365,604	-
Due in more than one year	13,591,033	9,610,000	23,201,033	-
Total liabilities	41,674,806	14,068,326	55,743,132	50,679
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	47,758,699	62,534,177	110,292,876	-
Restricted for:				
Police restricted use	117,641	-	117,641	-
Weed control	59,327	-	59,327	-
Library and library donations	1,211,351	-	1,211,351	-
Bike path	213,769	-	213,769	-
Community Development Block Grant	22,571	-	22,571	-
Rehabilitation revolving	1,848,736	-	1,848,736	-
Hess Hathaway Trust	49,950	-	49,950	-
Cemetery care	70,087	-	70,087	-
Debt service	336,053	-	336,053	-
Capital projects	519,173	-	519,173	-
Water and sewer:				
Restricted for capital projects	-	523,374	523,374	-
Restricted for environmental uses	-	169,305	169,305	-
Unrestricted	8,168,739	32,725,006	40,893,745	179,492
Total net assets	<u>\$ 60,376,096</u>	<u>\$ 95,951,862</u>	<u>\$ 156,327,958</u>	<u>\$ 179,492</u>



# Charter of Waterford Township

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 5,649,672	\$ 1,254,061	\$ -	\$ -
Public safety:				
Police	14,014,063	270,735	249,927	-
Fire	8,104,381	299,416	-	-
Public works	684,653	514,872	-	-
Building inspection	1,590,632	668,000	-	-
District court	3,140,799	2,418,119	-	-
Community and economic development	2,342,490	261,846	839,288	-
Recreation and culture	5,176,747	1,489,629	202,553	-
Interest on long-term debt	765,496	-	-	-
Total governmental activities	41,468,933	7,176,678	1,291,768	-
Business-type activities - Water and sewer	15,375,696	12,060,964	-	1,189,815
Total primary government	<b>\$ 56,844,629</b>	<b>\$ 19,237,642</b>	<b>\$ 1,291,768</b>	<b>\$ 1,189,815</b>
Component units:				
Economic Development Corporation	\$ 5,007	\$ -	\$ -	\$ -
Youth Assistance Corporation	65,066	8,960	70,425	-
Veteran's Memorial	3,979	5,969	-	-
Total component units	<b>\$ 74,052</b>	<b>\$ 14,929</b>	<b>\$ 70,425</b>	<b>\$ -</b>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise and other fees				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended December 31, 2003**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (4,395,611)	\$ -	\$ (4,395,611)	\$ -
(13,493,401)	-	(13,493,401)	-
(7,804,965)	-	(7,804,965)	-
(169,781)	-	(169,781)	-
(922,632)	-	(922,632)	-
(722,680)	-	(722,680)	-
(1,241,356)	-	(1,241,356)	-
(3,484,565)	-	(3,484,565)	-
(765,496)	-	(765,496)	-
(33,000,487)	-	(33,000,487)	-
-	(2,124,917)	(2,124,917)	-
(33,000,487)	(2,124,917)	(35,125,404)	-
-	-	-	(5,007)
-	-	-	14,319
-	-	-	1,990
-	-	-	11,302
22,552,041	-	22,552,041	-
6,597,657	-	6,597,657	-
448,991	418,198	867,189	-
668,750	80,138	748,888	-
98,846	-	98,846	-
30,366,285	498,336	30,864,621	-
(2,634,202)	(1,626,581)	(4,260,783)	11,302
63,010,298	97,578,443	160,588,741	166,186
<b>\$ 60,376,096</b>	<b>\$ 95,951,862</b>	<b>\$ 156,327,958</b>	<b>\$ 177,488</b>

# Charter Township of Waterford

## Governmental Funds Balance Sheet December 31, 2003

	Major Special Revenue Funds				Other	Total
	General Fund	Police	Fire	Improvement Revolving	Nonmajor Governmental Funds	Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 6,059,127	\$ 3,931,062	\$ 4,422,478	\$ 2,374,378	\$ 11,393,569	\$ 28,180,614
Receivables:						
Taxes	3,545,999	2,521,577	2,159,153	-	1,202,075	9,428,804
Special assessments	70,271	-	-	519,995	170,270	760,536
Accrued interest	28,872	-	-	-	-	28,872
Due from other governmental units	1,067,986	-	-	-	41,983	1,109,969
Other	68,945	27,168	23,820	-	25,140	145,073
Due from other funds (Note 5)	1,840,230	199,794	82	359,397	1,872,693	4,272,196
Total assets	<u>\$ 12,681,430</u>	<u>\$ 6,679,601</u>	<u>\$ 6,605,533</u>	<u>\$ 3,253,770</u>	<u>\$ 14,705,730</u>	<u>\$ 43,926,064</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 305,525	\$ 91,922	\$ 31,553	\$ 130,443	\$ 633,001	\$ 1,192,444
Accrued and other liabilities	45,806	89,648	53,971	-	25,575	215,000
Due to other funds (Note 5)	2,381,570	74,198	388,696	1,068	2,626,892	5,472,424
Due to other governmental units	62,930	-	-	-	-	62,930
Deferred revenue (Note 6)	9,120,972	6,331,524	5,421,499	519,995	3,216,990	24,610,980
Total liabilities	11,916,803	6,587,292	5,895,719	651,506	6,502,458	31,553,778
<b>Fund Balances</b>						
Reserved for drug enforcement	-	-	-	-	117,641	117,641
Unreserved - Undesignated	764,627	92,309	709,814	2,602,264	-	4,169,014
Unreserved - Reported in:						
Special Revenue Funds	-	-	-	-	7,230,405	7,230,405
Debt Service Funds	-	-	-	-	336,053	336,053
Capital Projects Funds	-	-	-	-	519,173	519,173
Total fund balances	764,627	92,309	709,814	2,602,264	8,203,272	12,372,286
Total liabilities and fund balances	<u>\$ 12,681,430</u>	<u>\$ 6,679,601</u>	<u>\$ 6,605,533</u>	<u>\$ 3,253,770</u>	<u>\$ 14,705,730</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	61,196,696
Receivables are expected to be collected over several years, and are not available to pay for current year expenditures	848,094
Rehabilitation revolving receivable is expected to be collected over several years, and is not available to pay for current year expenditures	1,848,736
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(14,310,729)
Compensated absences are not due and payable in the current period and are not reported in the funds	(1,676,973)
Internal Service Funds are included as part of governmental activities	97,986
Net assets of governmental activities	<u>\$ 60,376,096</u>

# Charter Township of Waterford

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2003

	Major Special Revenue Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Police	Fire	Improvement Revolving		
<b>Revenue</b>						
Property taxes	\$ 8,197,421	\$ 6,087,469	\$ 5,212,661	\$ -	\$ 2,898,804	\$ 22,396,355
Licenses and permits	1,059,481	32,932	-	-	4	1,092,417
Special assessments	419,647	-	-	-	95,225	514,872
Intergovernmental revenue:						
State sources	6,865,180	73,189	-	-	85,389	7,023,758
Federal sources	-	25,214	-	-	778,781	803,995
Charges for services	1,752,023	145,839	244,113	-	96,519	2,238,494
Fines and fees	2,562,509	70,073	-	-	146,039	2,778,621
Interest	207,111	33,202	28,457	75	177,633	446,478
Miscellaneous revenue	450,741	16,404	56,941	43,069	768,567	1,335,722
Total revenue	21,514,113	6,484,322	5,542,172	43,144	5,046,961	38,630,712
<b>Expenditures</b>						
General government	4,871,633	-	-	-	188,782	5,060,415
Public safety:						
Police	71,675	13,352,000	-	-	389,097	13,812,772
Fire	-	-	7,615,001	-	-	7,615,001
Public works	-	-	-	-	23,885	23,885
Building inspection	1,181,029	-	-	-	-	1,181,029
District court	2,493,735	-	-	-	-	2,493,735
Community and economic development	1,778,014	-	-	-	884,059	2,662,073
Recreation and culture	2,179,910	-	-	-	2,324,463	4,504,373
Capital expenditures	274,163	108,667	299,246	622,058	1,494,676	2,798,810
Debt service	109,750	-	-	-	1,045,896	1,155,646
Other	123,515	-	-	-	-	123,515
Total expenditures	13,083,424	13,460,667	7,914,247	622,058	6,350,858	41,431,254
<b>Excess of Revenue Over (Under) Expenditures</b>	8,430,689	(6,976,345)	(2,372,075)	(578,914)	(1,303,897)	(2,800,542)
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 5)	-	7,000,000	2,525,878	309,293	293,800	10,128,971
Transfers out (Note 5)	(10,128,971)	-	-	-	-	(10,128,971)
Total other financing sources (uses)	(10,128,971)	7,000,000	2,525,878	309,293	293,800	-
<b>Net Change in Fund Balances</b>	(1,698,282)	23,655	153,803	(269,621)	(1,010,097)	(2,800,542)
<b>Fund Balances - Beginning of year</b>	2,462,909	68,654	556,011	2,871,885	9,213,369	15,172,828
<b>Fund Balances - End of year</b>	<u>\$ 764,627</u>	<u>\$ 92,309</u>	<u>\$ 709,814</u>	<u>\$ 2,602,264</u>	<u>\$ 8,203,272</u>	<u>\$ 12,372,286</u>

# Charter Township of Waterford

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2003**

**Net Change in Fund Balances - Total Governmental Funds** \$ (2,800,542)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	2,197,486
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(3,298,071)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities record a gain or loss, included in general government expense	(134,728)
Certain revenues reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year	552,673
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	524,000
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the fund	48,968
Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	178,026
Internal Service Funds are also included as governmental activities	97,986

**Change in Net Assets of Governmental Activities** \$ (2,634,202)

# Charter Township of Waterford

## Proprietary Funds Statement of Net Assets December 31, 2003

	Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Motor Pool
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,573,413	\$ 46,879
Receivables:		
Customers	4,110,034	-
Special assessments	3,946,934	-
Accrued interest receivable	118,176	-
Other	2,800	-
Due from other funds	1,502,100	38,948
Total current assets	35,253,457	85,827
Noncurrent assets:		
Restricted assets	523,374	-
Nondepreciable capital assets	3,513,728	-
Depreciable capital assets	71,070,449	466,003
Total noncurrent assets	75,107,551	466,003
Total assets	110,361,008	551,830
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,692,490	-
Accrued and other liabilities	144,112	3,844
Due to other funds	340,820	-
Current portion of long-term debt	2,440,000	150,000
Total current liabilities	4,617,422	153,844
Noncurrent liabilities:		
Accumulated employee benefits	181,724	-
Long-term debt - Net of current portion	9,610,000	300,000
Total noncurrent liabilities	9,791,724	300,000
Total liabilities	14,409,146	453,844
<b>Net Assets</b>		
Investment in capital assets - Net of related debt	62,534,177	16,003
Restricted for capital projects	523,374	-
Restricted for environmental uses	169,305	-
Unrestricted	32,725,006	81,983
Total net assets	\$ 95,951,862	\$ 97,986

# Charter Township of Waterford

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2003

	Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Motor Pool
<b>Operating Revenue</b>		
Customer billings	\$ 3,301,757	\$ -
Sewage disposal charges	8,497,681	-
Hydrant rental	1,173	-
Meter charges	52,537	-
Charges for services	295,499	156,101
State sources	17,940	-
Total operating revenue	12,166,587	156,101
<b>Operating Expenses</b>		
Cost of water	1,938,057	-
Cost of sewage disposal	5,176,929	-
Operation and maintenance	1,550,088	-
General and administrative	3,560,230	-
Depreciation	2,641,377	42,069
Other services and charges	62,537	-
Total operating expenses	14,929,218	42,069
<b>Operating Income (Loss)</b>	(2,762,631)	114,032
<b>Nonoperating Revenue (Expense)</b>		
Interest expense	(454,023)	(16,594)
Interest income	418,198	548
Total nonoperating expense	(35,825)	(16,046)
<b>Income (Loss) - Before capital contributions</b>	(2,798,456)	97,986
<b>Capital Contributions</b>	1,171,875	-
<b>Change in Net Assets</b>	(1,626,581)	97,986
<b>Net Assets - Beginning of year, as adjusted (Note 13)</b>	97,578,443	-
<b>Net Assets - End of year</b>	<u>\$ 95,951,862</u>	<u>\$ 97,986</u>

# Charter Township of Waterford

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2003

	Enterprise Fund - Water and Sewer	Internal Service Fund
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 12,028,335	\$ 158,670
Payments to suppliers	(9,208,144)	(17,861)
Payments to employees	(3,858,075)	-
Other receipts	258,762	-
Net cash (used in) provided by operating activities	(779,122)	140,809
<b>Cash Flows from Capital and Related Financing Activities</b>		
Collection of customer assessments (principal and interest)	1,437,434	-
Contributions from customers	658,393	-
Proceeds from the issuance of long-term debt	5,000,000	-
Purchase of capital assets	(686,893)	-
Principal and interest paid on capital debt	(2,590,391)	(166,594)
Net cash provided by (used in) capital and related financing activities	3,818,543	(166,594)
<b>Cash Flows from Investing Activities</b>		
Interest received on investments	370,135	548
Purchase of investment securities	(28,846,851)	-
Proceeds from sale and maturities of investment securities	27,670,759	-
Net cash provided by (used in) investing activities	(805,957)	548
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,233,464	(25,237)
<b>Cash and Cash Equivalents - Beginning of year</b>	3,992,089	72,116
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 6,225,553</b>	<b>\$ 46,879</b>
<b>Statement of Net Assets Classification of Cash and Cash Equivalents</b>		
Cash and investments	\$ 25,573,413	\$ 46,879
Less amounts classified as investments (Note 3)	(19,347,860)	-
Total cash and cash equivalents	<b>\$ 6,225,553</b>	<b>\$ 46,879</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>		
Operating income (loss)	\$ (2,762,631)	\$ 114,032
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	2,641,377	42,069
Changes in assets and liabilities:		
Receivables	235,359	-
Due from/to other funds	(41,067)	3,788
Accounts payable	(714,201)	(17,861)
Accrued and other liabilities	(137,959)	(1,219)
Net cash (used in) provided by operating activities	<b>\$ (779,122)</b>	<b>\$ 140,809</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended December 31, 2003, developers constructed water and sewer lines with estimated values of \$513,482 and donated them to the Township's Enterprise Fund. In addition, water and sewer lines of \$52,985 were constructed with grant money received by the General Fund and donated to the Enterprise Fund. The Township has restricted assets held at Oakland County related to construction of water and sewer lines. During 2003, Oakland County earned interest of approximately \$42,000 and paid approximately \$3,100,000 in debt principal payments.



# Charter Township of Waterford

## Fiduciary Funds Statement of Net Assets December 31, 2003

	Pension Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 176,758	\$ 1,985,941
Investments:		
U.S. government securities	7,987,104	-
Collateralized mortgage obligations	6,063,457	-
Corporate bonds	8,888,233	-
Common stocks	38,003,412	-
Foreign bonds	359,607	-
Mutual funds	8,429,055	-
Pension manager short-term funds	12,497,087	-
Bank investment pools	-	2,199,849
Investments held by broker-dealer and banks under securities lending:		
U.S. government securities	4,532,926	-
U.S. corporate fixed income	96,130	-
U.S. equities	3,620,192	-
Securities lending short-term collateral bank investment pools	8,508,023	-
Due from other governmental units	-	40,946
Other receivables	1,961	3,801
Total assets	99,163,945	<u>\$ 4,230,537</u>
<b>Liabilities</b>		
Accounts payable	4,944,841	\$ -
Due to other governmental units	-	2,826,898
Bonds and other deposits	-	1,375,541
Accrued and other liabilities	-	28,098
Amounts due to broker under securities lending agreement	8,508,023	-
Total liabilities	13,452,864	<u>\$ 4,230,537</u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits		<u>\$ 85,711,081</u>

# Charter Township of Waterford

## **Fiduciary Funds Statement of Changes in Net Assets Pension Trust Funds Year Ended December 31, 2003**

### **Additions**

Investment income:	
Interest and dividends	\$ 1,828,585
Net increase in fair value of investments	<u>9,448,333</u>
Net investment income	11,276,918
Securities lending income:	
Interest and fees	164,344
Less borrower rebates and bank fees	<u>(143,185)</u>
Total securities lending income	21,159
Contributions:	
Employer	3,997,096
Employee	<u>589,694</u>
Total contributions	<u>4,586,790</u>
Total additions	15,884,867

### **Deductions**

Benefit payments	4,387,394
Administrative expenses	<u>304,111</u>
Total deductions	<u>4,691,505</u>

**Net Increase** 11,193,362

### **Net Assets Held in Trust for Pension and Other Employee**

#### **Benefits**

Beginning of year	<u>74,517,719</u>
End of year	<u><u>\$ 85,711,081</u></u>

# Charter Township of Waterford

## Component Units Statement of Net Assets December 31, 2003

	Economic Development Corporation	Waterford Youth Assistance Corporation	Veteran's Memorial Fund	Totals
<b>Assets</b>				
Cash and investments	\$ 152,036	\$ -	\$ 15,205	\$ 167,241
Due from other governmental units	<u>60</u>	<u>62,870</u>	<u>-</u>	<u>62,930</u>
Total assets	152,096	62,870	15,205	230,171
<b>Liabilities</b>				
Accounts payable	598	8,984	-	9,582
Due to other governmental units	<u>8,018</u>	<u>32,928</u>	<u>151</u>	<u>41,097</u>
Total liabilities	<u>8,616</u>	<u>41,912</u>	<u>151</u>	<u>50,679</u>
<b>Net Assets - Unrestricted</b>	<u><u>\$ 143,480</u></u>	<u><u>\$ 20,958</u></u>	<u><u>\$ 15,054</u></u>	<u><u>\$ 179,492</u></u>

# Charter Township of Waterford

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Economic Development Corporation - General government	\$ 5,007	\$ -	\$ -	\$ -
Waterford Youth Assistance Corporation - Community and economic development	65,066	8,960	70,425	-
Veteran's Memorial Fund - General government	3,979	-	-	5,969
Total governmental activities	<u>\$ 74,052</u>	<u>\$ 8,960</u>	<u>\$ 70,425</u>	<u>\$ 5,969</u>
General revenue - Interest				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year				
<b>Net Assets</b> - End of year				

**Component Units  
Statement of Activities  
Year Ended December 31, 2003**

Economic Development Corporation	Waterford Youth Assistance Corporation	Veteran's Memorial Fund	Total
\$ (5,007)	\$ -	\$ -	\$ (5,007)
-	14,319	-	14,319
-	-	1,990	1,990
<u>(5,007)</u>	<u>14,319</u>	<u>1,990</u>	<u>11,302</u>
<u>1,471</u>	<u>410</u>	<u>123</u>	<u>2,004</u>
(3,536)	14,729	2,113	13,306
<u>147,016</u>	<u>6,229</u>	<u>12,941</u>	<u>166,186</u>
<u><u>\$ 143,480</u></u>	<u><u>\$ 20,958</u></u>	<u><u>\$ 15,054</u></u>	<u><u>\$ 179,492</u></u>

# **Charter Township of Waterford**

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**Notes to Financial Statements  
December 31, 2003**

**PLEASE NOTE**

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FOOT ON THIS THE FIRST PAGE OF THE NOTES)**

# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Waterford, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

#### Reporting Entity

The Township is governed by an elected seven-member Board of Trustees. The Township's administration operates under the overall direction of an elected supervisor. The accompanying financial statements present the Township and its component units. The component units are entities for which the Township is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are a part of the Township's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

**Blended Component Units** - The Waterford Township Building Authority is governed by a board that is appointed by the Township. Although it is legally separate from the Township, it is reported as if it were part of the primary government, because its sole purpose is to finance and construct the Township's public buildings. The Building Authority Debt Service Fund has been blended into the General and Library Special Revenue Funds.

The Charter Township of Waterford's Police and Fire Retirement System and the Charter Township of Waterford's Regular Employees' Retirement System have been blended into the Township's financial statements. These systems are governed by a five-member Pension Board that includes the Township treasurer, two elected individuals chosen by the Township Board, and two members of the retirement system that are elected by the members of the system. The systems are reported as if they were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of each system. The operations of the Police and Fire Retirement System and the Regular Employees' Retirement System are reported as Pension Trust Funds.

# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Discretely Presented Component Units** - The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

- a. The Waterford Youth Assistance Corporation was created to mobilize community interest and forces toward youth and family adjustment and to aid in the prevention of juvenile delinquency and neglect. The Waterford Youth Assistance Corporation's governing body, which consists of four individuals, is selected by the General Citizens Council, which is appointed by the Township Board.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Economic Development Corporation's governing body, which consists of 11 individuals, is selected by the Supervisor and approved by the Township Board.
- c. The Veteran's Memorial Fund was created for the sole purpose of building and maintaining a memorial to all veterans who have served honorably in the military service of the United States. The Veteran's Memorial Fund's governing body, which consists of five individuals, is selected by the Supervisor and approved by the Township Board.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township (primary government) and its discretely presented component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.



# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or segment (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes billed during the month of December will be used to finance the following year's operations. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest are susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Police Fund accounts for the operations of the law enforcement activities of the Township. Funding is provided primarily through a local property tax levy and through transfers in from the General Fund.
- The Fire Fund accounts for the operations of the fire departments of the Township. Funding is provided primarily through a local property tax levy and through transfers in from the General Fund.
- The Improvement Revolving Fund provides accounting and budgeting for resources designated for Township building and equipment improvements and land acquisition. Funding is provided from the General Fund and the sale of capital assets.

The Township reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activity of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

- The Internal Service Fund is used to account for the financing of goods and services provided by one department to other departments of the Township on a cost reimbursement basis. The Township's Internal Service - Motor Pool Fund has been established to account for costs associated with vehicles purchased by the Township and used by all departments within the Township.
- The Pension Trust Funds account for the activities of employee benefit plans that accumulate resources for pension payments to qualified employees.

# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

- The Trust and Agency Fund accounts for assets held by the Township in a trustee capacity. The Trust and Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement or results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The Township's 2002 tax is levied and collectible on December 1, 2002 and is recognized as revenue in the year ended December 31, 2003, when the proceeds of the levy are budgeted and available for the financing of operations.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2002 taxable valuation of the Charter Township of Waterford totaled \$2.179 billion, on which ad valorem taxes levied consisted of 3.7580 mills for operating purposes, 2.7925 mills for the police, 2.3912 mills for the fire, .9302 mills for the library, and .4000 mills for debt on the public safety building. This resulted in \$8.19 million for operating purposes, \$6.09 million for the police, \$5.21 million for the fire, \$2.03 million for the library, and \$.87 million for debt on the public safety building. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

The delinquent real property taxes of the Township are purchased by Oakland County (the "County"). In approximately April or May, the County Treasurer reimburses the local unit for delinquent real property taxes through the County revolving fund. If delinquent real taxes cannot be collected by the County, the local unit portion of the tax is invoiced or deducted from the monthly County settlement.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The amount that is classified as restricted assets is the amount on deposit at the County being held for the construction or debt service of the Township's water and sewer lines.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 for personal property, \$10,000 for infrastructure, \$50,000 for building and improvements, \$75,000 for intangible assets, and no threshold for land, land improvements, telecommunications equipment, and library books with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Building and improvements	15-40 years
Infrastructure	40 years
Lines and laterals	75 years
Machinery and office equipment, vehicles, and other	3-13 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy that employees earn sick and vacation pay benefits on their anniversary date and it must be used within one year. The government-wide and proprietary fund statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure.

### Note 2 - Stewardship, Compliance, and Accountability

**State Construction Code Act** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2001 is as follows:

Cumulative shortfall - January 1, 2003		\$ (1,238,129)
Current year building permit revenue		610,870
Related expenses:		
Direct costs	\$ 1,038,857	
Estimated indirect costs	<u>-</u>	
Total construction code expenses		<u>1,038,857</u>
Cumulative shortfall - December 31, 2003		<u><u>\$ (1,666,116)</u></u>

# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township's deposit and investment policies are in accordance with statutory authority.

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

As permitted by state statutes, and under the provisions of a Securities Lending Authorization Agreement, the Waterford Township Police and Fire Retirement Systems and the Waterford Township Employees Retirement Systems (the "Systems") lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Systems' custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2003, only United States currency was received as collateral.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 3 - Deposits and Investments (Continued)

The Systems and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2003 was 116 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2003, the Systems had no credit risk exposure to borrowers. The collateral held and the fair market values of underlying securities on loan as of December 31, 2003 were \$8,508,023 and \$8,249,248, respectively, as follows:

	Police and Fire Pension	Regular Employees' Pension	Total
Securities:			
U.S. government securities	\$ 3,348,680	\$ 1,184,246	\$ 4,532,926
U.S. corporate fixed income	-	96,130	96,130
U.S. equities	1,276,355	2,343,837	3,620,192
Total	<u>\$ 4,625,035</u>	<u>\$ 3,624,213</u>	<u>\$ 8,249,248</u>
Collateral held	<u>\$ 4,747,275</u>	<u>\$ 3,760,748</u>	<u>\$ 8,508,023</u>

The Systems did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	\$ 16,624,229	\$ 13,599,474	\$ 30,223,703	\$ 4,362,546	\$ 17,225
Investments	11,603,264	11,973,939	23,577,203	98,985,228	150,016
Total	<u>\$ 28,227,493</u>	<u>\$ 25,573,413</u>	<u>\$ 53,800,906</u>	<u>\$ 103,347,774</u>	<u>\$ 167,241</u>



# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Township is as follows:

	Primary Government	Fiduciary Funds	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 30,214,681	\$ 4,362,546	\$ 17,225
Investments in securities, mutual funds, and similar vehicles	23,577,203	98,985,228	150,016
Petty cash or cash on hand	<u>9,022</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 53,800,906</u>	<u>\$ 103,347,774</u>	<u>\$ 167,241</u>

The bank balance of the Township's deposits is \$16,168,409, of which \$1,300,000 is covered by federal depository insurance and the remainder is uninsured and collateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Township's investments are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2003. Risk Category 1 includes those investments that are held in the Township's name and meet any one of the following criteria:

- Insured
- Registered
- Held by the Township or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by:

- The counterparty
- The counterparty's trust department (or agent) but not in the Township's name.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 3 - Deposits and Investments (Continued)

At year end, the Township's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - Bank investment pools	\$ -	\$ -	\$ -	\$ 23,577,203
Fiduciary funds:				
U.S government securities	\$ -	\$ 7,987,104	\$ -	\$ 7,987,104
Collateralized mortgage obligations	-	6,063,457	-	6,063,457
Corporate bonds	-	8,888,233	-	8,888,233
Common stocks	-	38,003,412	-	38,003,412
Foreign bonds	-	359,607	-	359,607
Subtotal	-	61,301,813	-	61,301,813
Investments not subject to categorization:				
Mutual funds	-	-	-	8,429,055
Pension manager short-term funds	-	-	-	12,497,089
Investments held by broker-dealer and banks under securities lending:				
U.S. government securities	-	-	-	4,532,926
U.S. corporate fixed income	-	-	-	96,130
U.S. equities	-	-	-	3,620,192
Securities lending short-term collateral bank investment pools	-	-	-	8,508,023
Total fiduciary funds	\$ -	\$ 61,301,813	\$ -	\$ 98,985,228
Component units - Bank investment pools	\$ -	\$ -	\$ -	\$ 150,016

The bank investment pools, pension manager short-term funds, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The investments held by broker-dealers and banks under securities loans are not categorized because the corresponding collateral is recorded in the financial statements. The corporate stock and bonds are all held by the pension funds. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act.

### **Note 3 - Deposits and Investments (Continued)**

Included in the Township's pension fund investments are the following:

- Approximately \$2,721,000 of securities issued by the Government National Mortgage Association. These investments are backed up by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,343,000 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$119,000. These obligations typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment for these "pay-through" securities could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

#### **Component Units**

The cash and investments of the Township's component units consist of bank deposits of \$17,225. These deposits are held in the name of the Township and any federal depository insurance coverage on those deposits would potentially be shared with the Township.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 26,508,649	\$ -	\$ -	\$ 26,508,649
Construction in progress	-	1,094,459	-	1,094,459
Subtotal	26,508,649	1,094,459	-	27,603,108
Capital assets being depreciated:				
Infrastructure	11,407,176	-	-	11,407,176
Buildings and improvements	28,141,962	155,004	-	28,296,966
Machinery and office equipment, vehicles, and other	16,844,124	948,023	(689,182)	17,102,965
Subtotal	56,393,262	1,103,027	(689,182)	56,807,107
Accumulated depreciation:				
Infrastructure	7,553,938	468,943	-	8,022,881
Buildings and improvements	5,998,852	710,155	-	6,709,007
Machinery and office equipment, vehicles, and other	6,409,041	2,118,973	(512,386)	8,015,628
Subtotal	19,961,831	3,298,071	(512,386)	22,747,516
Net capital assets being depreciated	36,431,431	(2,195,044)	(176,796)	34,059,591
Net governmental activities capital assets	<u>\$ 62,940,080</u>	<u>\$ (1,100,585)</u>	<u>\$ (176,796)</u>	<u>\$ 61,662,699</u>

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2003, as restated (Note 13)	Additions	Disposals and Adjustments	Balance December 31, 2003
Capital assets not being depreciated:				
Land	\$ 3,455,491	\$ -	\$ -	\$ 3,455,491
Construction in progress	546,248	58,237	(546,248)	58,237
Subtotal	4,001,739	58,237	(546,248)	3,513,728
Capital assets being depreciated:				
Lines and laterals	71,475,742	423,363	-	71,899,105
Buildings and improvements	24,625,804	546,248	-	25,172,052
Machinery and office equipment, vehicles, and other	5,381,049	718,775	-	6,099,824
Subtotal	101,482,595	1,688,386	-	103,170,981
Accumulated depreciation:				
Lines and laterals	22,859,557	1,461,323	-	24,320,880
Buildings and improvements	3,986,209	558,214	-	4,544,423
Machinery and office equipment, vehicles, and other	2,613,390	621,839	-	3,235,229
Subtotal	29,459,156	2,641,376	-	32,100,532
Net capital assets being depreciated	72,023,439	(952,990)	-	71,070,449
Net business-type capital assets	\$ 76,025,178	\$ (894,753)	\$ (546,248)	\$ 74,584,177

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 1,650,009
Public safety - Police	446,854
Public safety - Fire	381,690
District court	675,583
Building inspection	2,926
Recreation and culture	141,009

Total governmental activities \$ 3,298,071

Business-type activities - Water and sewer \$ 2,641,377

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets (Continued)

**Construction Commitments** - The Township has active construction projects at year end. The projects include the DPW administration building and the library building project. At year end, the Township's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
DPW Administration Building	\$ 10,954,628	\$ 42,400
Library Building	<u>1,094,459</u>	<u>654,283</u>
Total	<u>\$ 12,049,087</u>	<u>\$ 696,683</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund statements is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Fund	\$ 777
	Police Fund	25,414
	Nonmajor governmental funds	<u>1,814,039</u>
	Total General Fund	1,840,230
Fire Fund	Nonmajor governmental funds	82
Police Fund	Fire Fund	606
	Nonmajor governmental funds	<u>199,188</u>
	Total Police Fund	199,794
Improvement Revolving Fund	General Fund	141,586
	Nonmajor governmental funds	<u>217,811</u>
	Total Improvement Revolving Fund	359,397
Nonmajor governmental funds	General Fund	858,398
	Fire Fund	381,319
	Police Fund	19,090
	Nonmajor governmental funds	273,067
	Water and Sewer Fund	<u>340,819</u>
	Total nonmajor governmental funds	1,872,693

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 5 - Interfund Receivables, Payables and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Water and Sewer Fund	General Fund	\$ 1,375,549
	Fire Fund	1,119
	Police Fund	6,539
	Improvement Revolving Fund	1,068
	Nonmajor governmental funds	<u>117,825</u>
	Total Water and Sewer Fund	1,502,100
Internal Service Fund	General Fund	6,037
	Fire Fund	4,875
	Police Fund	23,155
	Nonmajor governmental funds	<u>4,881</u>
	Total Internal Service Fund	<u>38,948</u>
	Total	<u>\$ 5,813,244</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Improvement Revolving Fund	\$ 309,293
	Fire Fund	2,525,878
	Police Fund	7,000,000
	Nonmajor governmental funds	<u>293,800</u>
	Total	<u>\$ 10,128,971</u>

The transfers from the General Fund to the Improvement Revolving Fund represents transfers of unrestricted resources to finance capital projects in accordance with budgetary authorizations; the transfers from the General Fund to the Fire Fund and the Police Fund represent transfers of unrestricted resources to finance operations of the fire and police departments in accordance with budgetary authorizations; and the transfers from the General Fund to the nonmajor governmental funds represents transfers of unrestricted resources to finance operations of the funds.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 6 - Deferred Revenue

**Statement of Net Assets** - On the statement of net assets, the deferred revenue in the governmental activities represents property taxes levied on December 1, 2003, but recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for financing operations.

**Governmental Funds Balance Sheet** - Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue recorded on the governmental funds balance sheet are as follows:

	Unavailable	Unearned	Total
Property taxes	\$ 52,046	\$ 23,764,361	\$ 23,816,407
Special assessments and other	794,573	-	794,573
Total	<u>\$ 846,619</u>	<u>\$ 23,764,361</u>	<u>\$ 24,610,980</u>

### Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.



# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:					
Building Authority Bonds -					
1998 Building Authority Bonds:					
Amount of issue - \$730,000	4.60% -				
Maturing through 2006	4.75%	\$ 355,000	\$ (95,000)	\$ 260,000	\$ 90,000
General Obligation Bonds:					
General Obligation Bonds - Series 1998:					
Amount of issue - \$7,000,000	4.10% -				
Maturing through 2018	4.15%	6,225,000	(150,000)	6,075,000	175,000
General Obligation Bonds - Series 1999:					
Amount of issue - \$7,000,000	4.75% -				
Maturing through 2018	5.00%	6,725,000	(175,000)	6,550,000	200,000
General Obligation Limited Tax Bonds -					
Capital Improvement Bonds - Series 2001:					
Amount of issue - \$600,000	3.25% -				
Maturing through 2006	3.50%	600,000	(150,000)	450,000	150,000
Special Assessment Bonds:					
Special Assessment Bonds - Series 1994:					
Amount of issue - \$120,000					
Maturing through 2004	5.25%	25,000	(15,000)	10,000	10,000
Special Assessment Bonds - Series 1994-A:					
Amount of issue - \$755,000	4.30% -				
Maturing through 2009	5.00%	560,000	(80,000)	480,000	80,000
Lapham Road Special Assessment Bonds - 2001:					
Amount of issue - \$88,000	4.50% -				
Maturing through 2011	6.75%	88,000	(9,000)	79,000	9,000
Other long-term obligations:					
Employee compensated absences		1,854,999	(178,026)	1,676,973	1,676,973
Estimated personal property tax multiplier liability (Note 12)		359,094	(167,164)	191,930	-
Estimated liability for workers' compensation claims (Note 11)		316,586	72,517	389,103	180,000
Estimated liability for general liability claims (Note 11)		289,087	(116,180)	172,907	172,907
Total governmental activities		17,397,766	(1,062,853)	16,334,913	2,743,880

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type activities					
County Contract Obligations:					
November 1972 - Water ext. #3:					
Amount of issue - \$4,200,000	3.50% -				
Maturing through 2005	4.00%	\$ 600,000	\$ (200,000)	\$ 400,000	\$ 200,000
February 1978 - 1st Series:					
Amount of issue - \$11,750,000					
Maturing through 2003	6.25%	725,000	(725,000)	-	-
October 1977 - 2nd Series:					
Amount of issue - \$3,925,000					
Maturing through 2003	6.00%	200,000	(200,000)	-	-
May 1972 - Phase II:					
Amount of issue - \$20,400,000	5.75% -				
Maturing through 2005	7.00%	3,450,000	(1,100,000)	2,350,000	1,150,000
May 1978 - Phase IV:					
Amount of issue - \$12,350,000					
Maturing through 2003	7.50%	1,000,000	(1,000,000)	-	-
June 1978 - Phase V:					
Amount of issue - \$13,475,000					
Maturing through 2003	7.50%	1,200,000	(1,200,000)	-	-
July 1992 - Water iron filtration:					
Amount of issue - \$6,000,000	5.90% -				
Maturing through 2007	6.15%	2,900,000	(500,000)	2,400,000	550,000
July 1993 - Water iron filtration:					
Amount of issue - \$3,900,000	4.90% -				
Maturing through 2007	5.25%	2,225,000	(325,000)	1,900,000	375,000
Cap. Improvement Bond - Series 2003:					
Amount of issue - \$5,000,000	2.00% -				
Maturing through 2013	3.55%	-	5,000,000	5,000,000	165,000
Employee-compensated absences		165,398	16,326	181,724	181,724
Total business-type activities		12,465,398	(233,674)	12,231,724	2,621,724
Total business-type and governmental activities		\$ 29,863,164	\$ (1,296,527)	\$ 28,566,637	\$ 5,365,604

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above (governmental) bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 714,000	\$ 625,702	\$ 1,339,702	\$ 2,390,000	\$ 491,655	\$ -
2005	755,000	595,188	1,350,188	2,520,000	370,521	2,890,521
2006	795,000	561,639	1,356,639	1,380,000	278,521	1,658,521
2007	615,000	530,286	1,145,286	1,460,000	204,574	1,664,574
2008	665,000	500,849	1,165,849	195,000	164,480	359,480
2009 - 2013	4,110,000	1,961,231	6,071,231	1,095,000	735,730	1,830,730
2014 - 2018	6,250,000	762,294	7,012,294	1,340,000	525,840	1,865,840
2019 - 2023	-	-	-	1,670,000	227,348	1,897,348
Total	<u>\$ 13,904,000</u>	<u>\$ 5,537,189</u>	<u>\$ 19,441,189</u>	<u>\$ 12,050,000</u>	<u>\$ 2,998,669</u>	<u>\$ 12,167,014</u>

### Note 8 - Pension Plans

#### Plan Descriptions

The Township administers two single-employer defined benefit pension plans: The Police and Fire Retirement System and the Regular Employees' Retirement System.

The Police and Fire Retirement System covers all full-time police and fire employees and the Regular Employees' Retirement System covers all other full-time employees of the Township. Both systems provide retirement benefits as well as death and disability benefits.

At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of the following:

	Police and Fire Retirement System	Regular Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	79	119
Current active employees	<u>140</u>	<u>224</u>
Total membership	<u>219</u>	<u>343</u>

### Note 8 - Pension Plans (Continued)

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the Systems for these employees was established by negotiation with the Township's competitive bargaining units. The Police and Fire Retirement System requires a contribution from substantially all member employees of 5 percent of gross wages. The Regular Employees' Retirement System allows contributions from employees in order to purchase credit for military time. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Costs** - For the year ended December 31, 2003, the Township's annual pension cost of \$2,510,091 for the Police and Fire Retirement System and \$1,487,005 for the Regular Employees' Retirement System was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002 using the entry actual age cost method. Significant actuarial assumptions used include a 7.0 percent investment rate of return, and projected salary increases ranging from 4.1 percent to 11.9 percent and 4.5 percent to 7.7 percent for the Police and Fire Retirement System and for the Regular Employees' Retirement System, respectively. The projected salary increases include an inflation factor of 4.0 percent and 4.5 percent for the Police and Fire Retirement System and for the Regular Employees' Retirement System, respectively. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions for the Police and Fire Retirement System and for the Regular Employees' Retirement System. The remaining amortization period is 29 years for the Police and Fire Retirement System and 11 years for the Regular Employees' Retirement System.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 8 - Pension Plans (Continued)

**Reserves** - As of December 31, 2003, the plans' legally required reserves have been fully funded as follows:

Police and Fire Retirement System:	
Reserve for employees' contributions	\$ 7,986,332
Reserve for employer contributions	11,100,891
Reserve for retired benefit payments	<u>27,430,739</u>
Total Police and Fire Retirement System	46,517,962
Regular Employees' Retirement System:	
Reserve for employees' contributions	1,168,363
Reserve for employer contributions	25,453,974
Reserve for retired benefit payments	<u>12,570,782</u>
Total Regular Employees' Retirement System	<u>39,193,119</u>
Total reserves	<u><u>\$ 85,711,081</u></u>

### Three-year Trend Information

	Fiscal Year Ended December 31		
	2001	2002	2003
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 1,755,033	\$ 2,153,300	\$ 2,510,091
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
Regular Employees' Retirement System:			
Annual pension costs (APC)	\$ 984,758	\$ 994,059	\$ 1,487,005
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

# Charter Township of Waterford

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## Notes to Financial Statements December 31, 2003

### **Note 9 - Postemployment Benefits**

The Township provides health care benefits to all full-time employees upon retirement or to individuals receiving system disability pensions, in accordance with various labor contracts. Currently, 188 individuals are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year this amounted to approximately \$2,102,000.

### **Note 10 - Restricted Assets - Enterprise Fund**

Restricted assets at December 31, 2003 consist solely of deposits held by Oakland County for future water and sewer line construction.

### **Note 11 - Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general and auto liability, auto physical damage, and property loss claims; the Township is self-insured for workers' compensation claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (MMRMA) risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the MMRMA and then MMRMA uses those premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

# Charter Township of Waterford

## Notes to Financial Statements December 31, 2003

### Note 11 - Risk Management (Continued)

The Township estimates the liability for general liability and workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability		Workers' Compensation	
	2003	2002	2003	2002
Estimated liability - Beginning of year	\$ 289,087	\$ 339,731	\$ 316,586	\$ 266,715
Estimated claims incurred, including changes in estimates	1,027,373	157,230	216,972	138,136
Claim payments	(1,143,553)	(207,874)	(144,455)	(88,265)
Estimated liability - End of year	<u>\$ 172,907</u>	<u>\$ 289,087</u>	<u>\$ 389,103</u>	<u>\$ 316,586</u>
Estimated current portion	\$ 172,907		\$ 180,000	
Estimated long-term portion	-		209,103	
Total estimated liability	<u>\$ 172,907</u>		<u>\$ 389,103</u>	

### Note 12 - Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$192,000 in the governmental funds. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to the governmental funds has been recorded as long-term liability on the government-wide statement of net assets at December 31, 2003.

### Note 13 - Accounting and Reporting Change

#### GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. The Township has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the Township. Capital assets at January 1, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by \$8,018,000 to reflect the historical cost of the Township's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$645,000 previously reported in the General Long-term Debt Account Group.
- Capital assets in the Water and Sewer Fund have been restated due to the independent appraisal of capital assets to properly implement GASB No. 34. As a result of the appraisal, net assets in the Water and Sewer Fund have been restated from \$159,150,304 to \$97,578,443 as of January 1, 2003.



## **Required Supplemental Information**

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# Charter Township of Waterford

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 8,676,025	\$ 8,265,025	\$ 8,197,421	\$ (67,604)
State sources	7,537,725	6,933,025	6,865,180	(67,845)
Special assessments	1,000	412,000	419,647	7,647
Licenses and permits	836,800	667,800	613,507	(54,293)
Fines and forfeitures	2,847,000	2,654,200	2,562,509	(91,691)
Charges for services	1,521,088	1,721,088	1,752,023	30,935
Interest income	500,000	500,000	207,111	(292,889)
Cable revenue	427,800	382,300	445,974	63,674
Other	89,700	372,000	450,741	78,741
Transfer from other funds	-	-	-	-
Total revenue	22,437,138	21,907,438	21,514,113	(393,325)
<b>Expenditures</b>				
General government:				
Township Board	71,598	71,598	70,901	697
Supervisor and assessing	800,505	821,550	794,525	27,025
Elections	5,300	5,300	9,506	(4,206)
Clerk	499,461	513,547	488,113	25,434
Personnel	288,389	305,076	295,473	9,603
General services	1,457,831	1,527,111	1,509,337	17,774
Retiree benefits	858,265	924,265	916,280	7,985
Information services	364,808	390,719	372,463	18,256
Treasurer	513,237	552,438	527,412	25,026
Facilities and operations	1,189,518	1,265,128	1,181,029	84,099
Total general government	6,048,912	6,376,732	6,165,039	211,693
District Court	2,438,503	2,498,961	2,494,743	4,218
Public safety - School crossing guards	64,590	64,590	71,675	(7,085)
Planning Department	1,859,320	1,650,326	1,620,749	29,577
Health and welfare	201,600	165,600	163,048	2,552
Parks and recreation	2,004,092	2,221,157	2,202,208	18,949
Capital outlay	276,080	167,900	132,697	35,203
Debt service	109,558	109,558	109,750	(192)
Other	663,877	123,515	123,515	-
Transfers to other funds:				
Police Fund	7,000,000	7,000,000	7,000,000	-
Fire Fund	2,525,878	2,525,878	2,525,878	-
Hess Hathaway Trust Fund	88,800	88,800	88,800	-
Improvement Revolving Fund	-	309,293	309,293	-
CAI Building Fund	200,000	200,000	200,000	-
Cemetery Care Fund	5,000	5,000	5,000	-
Total charges to appropriations	23,486,210	23,507,310	23,212,395	294,915
<b>Net Change in Fund Balance</b>	(1,049,072)	(1,599,872)	(1,698,282)	(98,410)
<b>Fund Balance - Beginning of year</b>	2,462,909	2,462,909	2,462,909	-
<b>Fund Balance - End of year</b>	<b>\$ 1,413,837</b>	<b>\$ 863,037</b>	<b>\$ 764,627</b>	<b>\$ (98,410)</b>

# Charter Township of Waterford

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2003

	Police Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 6,111,470	\$ 6,111,470	\$ 6,087,469	\$ (24,001)
State sources	2,000	2,000	73,189	71,189
Federal sources	75,214	75,214	25,214	(50,000)
Licenses and permits	30,000	30,000	32,932	2,932
Fines and forfeitures	59,000	59,000	70,073	11,073
Charges for services	100,000	100,000	145,839	45,839
Interest income	75,000	75,000	33,202	(41,798)
Other	34,000	34,000	16,404	(17,596)
Transfer from other funds	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>
Total revenue	13,486,684	13,486,684	13,484,322	(2,362)
<b>Expenditures</b>				
Public Safety - Police	13,180,870	13,361,884	13,352,000	9,884
Capital outlay	<u>305,814</u>	<u>124,800</u>	<u>108,667</u>	<u>16,133</u>
Total expenditures	<u>13,486,684</u>	<u>13,486,684</u>	<u>13,460,667</u>	<u>26,017</u>
<b>Net Change in Fund Balance</b>	-	-	23,655	23,655
<b>Fund Balance - Beginning of year</b>	<u>68,654</u>	<u>68,654</u>	<u>68,654</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 68,654</u>	<u>\$ 68,654</u>	<u>\$ 92,309</u>	<u>\$ 23,655</u>

# Charter Township of Waterford

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2003

	Fire Fund			Variance with
				Amended
				Budget
				Favorable
	Original Budget	Amended Budget	Actual	(Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 5,228,713	\$ 5,215,713	\$ 5,212,661	\$ (3,052)
Charges for services	207,000	230,000	244,113	14,113
Interest income	60,000	60,000	28,457	(31,543)
Other	26,000	50,000	56,941	6,941
Transfer from other funds	2,525,878	2,525,878	2,525,878	-
Total revenue	8,047,591	8,081,591	8,068,050	(13,541)
<b>Expenditures</b>				
Public Safety - Fire	7,471,241	7,653,141	7,615,001	38,140
Capital outlay	361,000	334,100	299,246	34,854
Total expenditures	7,832,241	7,987,241	7,914,247	72,994
<b>Net Change in Fund Balance</b>	215,350	94,350	153,803	59,453
<b>Fund Balance - Beginning of year</b>	556,011	556,011	556,011	-
<b>Fund Balance - End of year</b>	<u>\$ 771,361</u>	<u>\$ 650,361</u>	<u>\$ 709,814</u>	<u>\$ 59,453</u>

# Charter Township of Waterford

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2003

	Improvement Revolving Fund			Variance with
		Amended		Amended
	Original Budget	Budget	Actual	Budget
				Favorable
				(Unfavorable)
<b>Revenues</b>				
Interest income	\$ 10,000	\$ 10,000	\$ 75	\$ (9,925)
Other	-	-	43,069	43,069
Transfer from other funds	-	309,293	309,293	-
Total revenue	10,000	319,293	352,437	33,144
<b>Expenditures - Capital outlay</b>	206,000	797,600	622,058	175,542
<b>Net Change in Fund Balance</b>	(196,000)	(478,307)	(269,621)	208,686
<b>Fund Balance - Beginning of year</b>	2,871,885	2,871,885	2,871,885	-
<b>Fund Balance - End of year</b>	<u>\$ 2,675,885</u>	<u>\$ 2,393,578</u>	<u>\$ 2,602,264</u>	<u>\$ 208,686</u>

# Charter Township of Waterford

## Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b>Police and Fire Retirement System</b>						
1997	\$ 33,986,000	\$ 39,667,000	\$ 5,681,000	85.7	\$ 6,820,000	83.3
1998	39,341,000	43,606,000	4,265,000	90.2	7,167,000	60.0
1999	44,261,000	47,593,000	3,332,000	93.0	7,748,000	43.0
2000	48,100,000	52,000,000	3,900,000	92.5	8,200,000	47.6
2001	50,700,000	57,700,000	7,000,000	87.9	8,800,000	79.5
2002	50,300,000	62,200,000	11,900,000	80.9	9,200,000	129.3
<b>Regular Employees' Retirement System</b>						
1997	\$ 29,106,000	\$ 27,309,000	\$ (1,797,000)	106.6	\$ 6,487,000	(27.7)
1998	33,389,000	29,150,000	(4,239,000)	114.5	6,563,000	(64.5)
1999	36,325,000	32,425,000	(3,900,000)	112.0	7,897,000	(49.4)
2000	39,317,000	34,816,000	(4,501,000)	112.9	8,182,000	(55.0)
2001	41,200,000	36,700,000	(4,500,000)	112.3	8,900,000	(50.5)
2002	40,800,000	39,900,000	(900,000)	102.0	9,400,000	(9.6)

# Charter Township of Waterford

## Required Supplemental Information Pension System Schedule of Funding Progress (Continued) December 31, 2003

The schedule of employer contributions is as follows:

### Police and Fire Retirement System

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
1998	\$ 1,555,632	100.0
1999	1,568,120	100.0
2000	1,605,659	100.0
2001	1,755,033	100.0
2002	2,153,300	100.0
2003	2,510,091	100.0

### Regular Employees' Retirement System

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
1998	\$ 1,044,847	100.0
1999	838,085	100.0
2000	1,051,557	100.0
2001	984,758	100.0
2002	994,059	100.0
2003	1,487,005	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, follows:

### Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	29 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	4.1% - 11.9%
*Includes inflation at	4.0%

### Regular Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	11 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	4.5% - 7.7%
*Includes inflation at	4.5%

# Charter Township of Waterford

## Notes to Required Supplemental Information December 31, 2003

### Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund		Police Fund		Fire Fund		Improvement Revolving Fund	
	Total		Total		Total		Total	
	Total Revenue	Expenditures	Total Revenue	Expenditures	Total Revenue	Expenditures	Total Revenue	Expenditures
Amounts per operating statement	\$ 21,514,113	\$ 13,083,424	\$ 6,484,322	\$ 13,460,667	\$ 5,542,172	\$ 7,914,247	\$ 43,144	\$ 622,058
Operating transfers budgeted as revenue and expenditures	-	10,128,971	7,000,000	-	2,525,878	-	309,293	-
Amounts per budget statement	<u>\$ 21,514,113</u>	<u>\$ 23,212,395</u>	<u>\$ 13,484,322</u>	<u>\$ 13,460,667</u>	<u>\$ 8,068,050</u>	<u>\$ 7,914,247</u>	<u>\$ 352,437</u>	<u>\$ 622,058</u>

### Note 2 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before September 1, the Office of Fiscal & Human Resources Director and the Township Supervisor prepare a proposed operating budget for the fiscal year commencing January 1 and submit it to the Board. The budget must be adopted through a passage of a budget resolution no later than November 1.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year the Board receives requests to amend the activity budget. All amendments must be approved by a vote of the Township Board. Changes in line items within an activity may be made approved by the Director of Fiscal and Human Resources.



# **Charter Township of Waterford**

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## **Notes to Required Supplemental Information December 31, 2003**

### **Note 2 - Budgetary Information (Continued)**

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Township did not incur any expenditures that were significantly in excess of the amounts budgeted.

## **Other Supplemental Information**

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# Charter Township of Waterford

	Special Revenue Funds						
	Bike Path	Community Development Block Grant	Library	Library Donations	CAI Building Fund	Sick and Vacation Pay	Hess Hathaway Trust
<b>Assets</b>							
Cash and investments	\$ 225,414	\$ 81,806	\$ 3,112,723	\$ 9,375	\$ 23,163	\$ 197,316	\$ (111,347)
Receivables:							
Taxes	-	-	839,923	-	-	-	-
Special assessments	-	-	-	-	-	-	-
Due from other governmental units	-	41,983	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from other funds	-	158,132	140,332	10,505	117,183	14,000	185,481
<b>Total assets</b>	<b>\$ 225,414</b>	<b>\$ 281,921</b>	<b>\$ 4,092,978</b>	<b>\$ 19,880</b>	<b>\$ 140,346</b>	<b>\$ 211,316</b>	<b>\$ 74,134</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ -	\$ 21,149	\$ 523,055	\$ 400	\$ 2,199	\$ -	\$ 4,689
Accrued and other liabilities	-	2,299	17,442	-	1,438	-	934
Deferred revenue	-	-	2,108,992	-	-	-	-
Due to other funds	11,645	235,902	251,618	-	2,250	-	18,561
<b>Total liabilities</b>	<b>11,645</b>	<b>259,350</b>	<b>2,901,107</b>	<b>400</b>	<b>5,887</b>	<b>-</b>	<b>24,184</b>
<b>Fund Balances</b>							
Reserved for capital construction	-	-	1,165,788	-	-	-	-
Unreserved:							
Designated for subsequent year's expenditures	69,752	-	-	-	-	-	-
Undesignated	144,017	22,571	26,083	19,480	134,459	211,316	49,950
<b>Total fund balances</b>	<b>213,769</b>	<b>22,571</b>	<b>1,191,871</b>	<b>19,480</b>	<b>134,459</b>	<b>211,316</b>	<b>49,950</b>
<b>Total liabilities and fund balances</b>	<b>\$ 225,414</b>	<b>\$ 281,921</b>	<b>\$ 4,092,978</b>	<b>\$ 19,880</b>	<b>\$ 140,346</b>	<b>\$ 211,316</b>	<b>\$ 74,134</b>

**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2003**

Special Revenue Funds						Capital Projects Funds			
Workers' Compensation	Cemetery Care	Weed Control	Police Restricted Use	Health Benefits	Cable Commission	Debt Service Fund	S.A.D. Road Paving	Police and Fire Building	Total Nonmajor Governmental Funds
\$ 647,899	\$ 63,750	\$ 27,956	\$ 107,769	\$ 5,276,633	\$ (23,776)	\$ 882,441	\$ 746,151	\$ 126,296	\$ 11,393,569
-	-	-	-	-	-	362,152	-	-	1,202,075
-	-	505	-	-	-	-	169,765	-	170,270
-	-	-	-	-	-	-	-	-	41,983
-	-	-	1,472	-	23,668	-	-	-	25,140
<u>1,788</u>	<u>6,337</u>	<u>84,650</u>	<u>26,439</u>	<u>731,819</u>	<u>235,830</u>	<u>33,728</u>	<u>77,898</u>	<u>48,571</u>	<u>1,872,693</u>
<b><u>\$ 649,687</u></b>	<b><u>\$ 70,087</u></b>	<b><u>\$ 113,111</u></b>	<b><u>\$ 135,680</u></b>	<b><u>\$ 6,008,452</u></b>	<b><u>\$ 235,722</u></b>	<b><u>\$ 1,278,321</u></b>	<b><u>\$ 993,814</u></b>	<b><u>\$ 174,867</u></b>	<b><u>\$ 14,705,730</u></b>
\$ -	\$ -	\$ 43,037	\$ 16,563	\$ -	\$ 5,369	\$ -	\$ -	\$ 16,540	\$ 633,001
-	-	2,990	-	-	472	-	-	-	25,575
-	-	-	1,476	-	-	909,342	197,180	-	3,216,990
<u>-</u>	<u>-</u>	<u>7,757</u>	<u>-</u>	<u>1,619,983</u>	<u>10,462</u>	<u>32,926</u>	<u>366,781</u>	<u>69,007</u>	<u>2,626,892</u>
-	-	53,784	18,039	1,619,983	16,303	942,268	563,961	85,547	6,502,458
-	-	-	-	-	-	-	-	-	1,165,788
-	-	-	-	-	12,337	-	-	-	82,089
<u>649,687</u>	<u>70,087</u>	<u>59,327</u>	<u>117,641</u>	<u>4,388,469</u>	<u>207,082</u>	<u>336,053</u>	<u>429,853</u>	<u>89,320</u>	<u>6,955,395</u>
<u>649,687</u>	<u>70,087</u>	<u>59,327</u>	<u>117,641</u>	<u>4,388,469</u>	<u>219,419</u>	<u>336,053</u>	<u>429,853</u>	<u>89,320</u>	<u>8,203,272</u>
<b><u>\$ 649,687</u></b>	<b><u>\$ 70,087</u></b>	<b><u>\$ 113,111</u></b>	<b><u>\$ 135,680</u></b>	<b><u>\$ 6,008,452</u></b>	<b><u>\$ 235,722</u></b>	<b><u>\$ 1,278,321</u></b>	<b><u>\$ 993,814</u></b>	<b><u>\$ 174,867</u></b>	<b><u>\$ 14,705,730</u></b>

## **Charter Township of Waterford**

---

# Charter Township of Waterford

	Special Revenue Funds						
	Bike Path	Community Development Block Grant	Library	Library Donations	CAI Building Fund	Sick and Vacation Pay	Hess Hathaway Trust
<b>Revenue</b>							
Property taxes	\$ -	\$ -	\$ 2,027,776	\$ -	\$ -	\$ -	\$ -
Licenses and permits	4	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-
Intergovernmental revenue:							
State sources	-	-	85,389	-	-	-	-
Federal sources	-	778,781	-	-	-	-	-
Charges for services	-	-	96,519	-	-	-	-
Fines and fees	-	-	146,039	-	-	-	-
Interest	5,366	-	36,923	-	1,171	-	-
Miscellaneous revenue	-	-	52	10,989	25,170	-	58,029
Total revenue	5,370	778,781	2,392,698	10,989	26,341	-	58,029
<b>Expenditures</b>							
General government	-	-	-	-	-	-	-
Public safety - Police	-	-	-	-	-	-	-
Public works	23,885	-	-	-	-	-	-
Community and economic development	-	884,059	-	-	-	-	-
Recreation and culture	-	-	1,887,160	5,447	248,282	-	160,305
Capital expenditures	145	-	1,370,614	9,366	5,268	-	4,123
Debt service	-	-	-	-	-	-	-
Total expenditures	24,030	884,059	3,257,774	14,813	253,550	-	164,428
<b>Excess of Revenue Over (Under) Expenditures</b>	(18,660)	(105,278)	(865,076)	(3,824)	(227,209)	-	(106,399)
<b>Other Financing Sources (Uses) -</b>							
Transfers in	-	-	-	-	200,000	-	88,800
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(18,660)	(105,278)	(865,076)	(3,824)	(27,209)	-	(17,599)
<b>Fund Balances - Beginning of year</b>	232,429	127,849	2,056,947	23,304	161,668	211,316	67,549
<b>Fund Balances - End of year</b>	<u>\$ 213,769</u>	<u>\$ 22,571</u>	<u>\$ 1,191,871</u>	<u>\$ 19,480</u>	<u>\$ 134,459</u>	<u>\$ 211,316</u>	<u>\$ 49,950</u>

**Combining Statement of Revenue, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds  
Year Ended December 31, 2003**

Special Revenue Funds					Capital Projects Funds				Total Nonmajor
Workers' Compensation	Cemetery Care	Weed Control	Police Restricted Use	Health Benefits	Cable Commission	Debt Service Fund	S.A.D. Road Paving	Police and Fire Building	Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 871,028	\$ -	\$ -	\$ 2,898,804
-	-	-	-	-	-	-	-	-	4
-	-	-	-	-	-	-	95,225	-	95,225
-	-	-	-	-	-	-	-	-	85,389
-	-	-	-	-	-	-	-	-	778,781
-	-	-	-	-	-	-	-	-	96,519
-	-	-	-	-	-	-	-	-	146,039
12,440	-	-	-	102,911	4,187	4,109	10,290	236	177,633
-	-	-	175,380	284,023	214,924	-	-	-	768,567
12,440	-	-	175,380	386,934	219,111	875,137	105,515	236	5,046,961
600	-	-	-	-	188,182	-	-	-	188,782
-	-	-	389,097	-	-	-	-	-	389,097
-	-	-	-	-	-	-	-	-	23,885
-	-	-	-	-	-	-	-	-	884,059
-	-	23,269	-	-	-	-	-	-	2,324,463
-	-	-	-	-	13,273	-	-	91,887	1,494,676
-	-	-	-	-	-	909,825	136,071	-	1,045,896
600	-	23,269	389,097	-	201,455	909,825	136,071	91,887	6,350,858
11,840	-	(23,269)	(213,717)	386,934	17,656	(34,688)	(30,556)	(91,651)	(1,303,897)
-	5,000	-	-	-	-	-	-	-	293,800
11,840	5,000	(23,269)	(213,717)	386,934	17,656	(34,688)	(30,556)	(91,651)	(1,010,097)
637,847	65,087	82,596	331,358	4,001,535	201,763	370,741	460,409	180,971	9,213,369
<b>\$ 649,687</b>	<b>\$ 70,087</b>	<b>\$ 59,327</b>	<b>\$ 117,641</b>	<b>\$ 4,388,469</b>	<b>\$ 219,419</b>	<b>\$ 336,053</b>	<b>\$ 429,853</b>	<b>\$ 89,320</b>	<b>\$ 8,203,272</b>





# Charter Township of Waterford

## Combining Statement of Net Assets Fiduciary Funds June 30, 2002

	Police and Fire Pension	Regular Employees' Pension	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 43,959	\$ 132,799	\$ 176,758
Investments:			
U.S. government securities	6,138,302	1,848,802	7,987,104
Collateralized mortgage obligations	2,496,693	3,566,764	6,063,457
Corporate bonds	2,776,334	6,111,899	8,888,233
Common stocks	18,425,002	19,578,410	38,003,412
Foreign bonds	77,704	281,903	359,607
Mutual funds	3,819,464	4,609,591	8,429,055
Pension manager short-term funds	9,602,399	2,894,688	12,497,087
Investments held by broker-dealer and banks under securities lending:			
U.S. government securities	3,348,680	1,184,246	4,532,926
U.S. corporate fixed income	-	96,130	96,130
U.S. equities	1,276,355	2,343,837	3,620,192
Securities lending short-term collateral bank investment pools	4,747,275	3,760,748	8,508,023
Other receivables	-	1,961	1,961
<b>Total assets</b>	<b>52,752,167</b>	<b>46,411,778</b>	<b>99,163,945</b>
<b>Liabilities</b>			
Accounts payable	1,486,930	3,457,911	4,944,841
Amounts due to broker under securities lending agreement	4,747,275	3,760,748	8,508,023
<b>Total liabilities</b>	<b>6,234,205</b>	<b>7,218,659</b>	<b>13,452,864</b>
<b>Net Assets - Reserved</b>			
Police and Fire Pension	46,517,962	-	46,517,962
Regular Employees' Pension	-	39,193,119	39,193,119
<b>Total net assets</b>	<b>\$ 46,517,962</b>	<b>\$ 39,193,119</b>	<b>\$ 85,711,081</b>

# Charter Township of Waterford

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended December 31, 2003

	Police and Fire Pension	Regular Employees' Pension	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,080,425	\$ 748,160	\$ 1,828,585
Net increase in fair value of investments	<u>4,459,579</u>	<u>4,988,754</u>	<u>9,448,333</u>
Net investment income	5,540,004	5,736,914	11,276,918
Securities lending income:			
Interest and fees	103,010	61,334	164,344
Less borrower rebates and bank fees	<u>(91,196)</u>	<u>(51,989)</u>	<u>(143,185)</u>
Total securities lending income	11,814	9,345	21,159
Contributions:			
Employer	2,510,091	1,487,005	3,997,096
Employee	<u>542,222</u>	<u>47,472</u>	<u>589,694</u>
Total contributions	3,052,313	1,534,477	4,586,790
<b>Deductions</b>			
Benefit payments	2,652,068	1,735,326	4,387,394
Administrative expenses	<u>133,903</u>	<u>170,208</u>	<u>304,111</u>
Total deductions	<u>2,785,971</u>	<u>1,905,534</u>	<u>4,691,505</u>
<b>Net Increase</b>	5,818,160	5,375,202	11,193,362
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	<u>40,699,802</u>	<u>33,817,917</u>	<u>74,517,719</u>
End of year	<u><b>\$ 46,517,962</b></u>	<u><b>\$ 39,193,119</b></u>	<u><b>\$ 85,711,081</b></u>

# **Charter Township of Waterford**

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## **Federal Awards Supplemental Information December 31, 2003**

# Charter Township of Waterford

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## Independent Auditor's Report

To the Members of the Township Board  
Charter Township of Waterford

We have audited the basic financial statements of the Charter Township of Waterford for the year ended December 31, 2003 and have issued our report thereon dated May 28, 2004. Those basic financial statements are the responsibility of the management of the Charter Township of Waterford. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Charter Township of Waterford taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

May 28, 2004

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**Report Letter on Compliance with Laws and Regulations and  
Internal Control - Basic Financial Statements**

To the Members of the Township Board  
Charter Township of Waterford

We have audited the financial statements of the Charter Township of Waterford as of and for the year ended December 31, 2003 and have issued our report thereon dated May 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Charter Township of Waterford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Charter Township of Waterford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Charter Township of Waterford's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item Finding 01-I.

To the Members of the Township Board  
Charter Township of Waterford

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the Charter Township of Waterford in a separate letter dated May 28, 2004.

This report is intended solely for the information and use of the members of the Township Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

May 28, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the Members of the Township Board  
Charter Township of Waterford

**Compliance**

We have audited the compliance of the Charter Township of Waterford with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2003. The major federal program of the Charter Township of Waterford is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Charter Township of Waterford's management. Our responsibility is to express an opinion on the Charter Township of Waterford's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Charter Township of Waterford's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Charter Township of Waterford's compliance with those requirements.

In our opinion, the Charter Township of Waterford complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.



To the Members of the Township Board  
Charter Township of Waterford

### **Internal Control Over Compliance**

The management of the Charter Township of Waterford is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Charter Township of Waterford's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Township Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

May 28, 2004

# Charter Township of Waterford

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant (major program):			
B-01-MC-26-0030	14.218	\$ 505,000	\$ 6,005
B-02-MC-26-0030	14.218	480,000	840,460
B-03-MC-26-0030	14.218	<u>467,000</u>	<u>37,594</u>
Total U.S. Department of Housing and Urban Development - Community Development Block Grant (major program)		1,452,000	884,059
U.S. Department of Justice:			
Direct Program - Federal Equitable Drug Sharing Program	16.Unknown	12,345	12,345
Passed through the Michigan Office of Drug Control Policy - Local Law Enforcement Block Grant - 2002LBBX1165	16.592	<u>25,214</u>	<u>20,816</u>
Total U.S. Department of Justice		<u>37,559</u>	<u>33,161</u>
Total federal awards		<u><b>\$1,489,559</b></u>	<u><b>\$ 917,220</b></u>

# **Charter Township of Waterford**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2003**

# Charter Township of Waterford

## Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2003

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter Township of Waterford and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 55,138

# Charter Township of Waterford

## Schedule of Findings and Questioned Costs Year Ended December 31, 2003

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

# Charter Township of Waterford

## Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2003

### Section II - Financial Statement Audit Findings

Reference Number	Findings
01-I	<p><b>Finding Type</b> - Reportable condition (repeat finding)</p> <p><b>Condition</b> - The Township did not timely reconcile its general ledger cash and investment balances to the bank statements and Treasurer's department records.</p> <p><b>Description</b> - The Treasurer's office tracks cash and investment activity, and timely reconciles those balances to the bank statements. In order to maintain adequate internal control over the accuracy of the general ledger, the accountant needs to reconcile the cash and investment balances to the bank statements and Treasurer's department records.</p> <p>We recommend, and the Charter Township of Waterford concurs, that the reconciliation of both cash and investments should be prepared monthly, signed and dated to document timeliness, and signed and dated by an individual in the Treasurer's department to document review and concurrence with any adjustments.</p>

### Section III - Federal Program Audit Findings

None

May 28, 2004

Board of Trustees  
Charter Township of Waterford  
5200 Civic Center Drive  
Waterford, Michigan 48095

Dear Board Members:

We have recently completed our audit of the financial statements of the Charter Township of Waterford for the year ended December 31, 2003. As part of our audit, we offer the following comments and recommendations:

### **NEW FINANCIAL STATEMENT FORMAT**

During the current year, the Township, along with many other communities in Michigan, was required to implement a new accounting pronouncement that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the Township's overall financial position and results of operations. This section provides an overview of the Township's finances, as well as major projects worked on throughout the year.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Township from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the Township's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the Township as compared to the amended budget, but also as compared to the original budget.

While getting used to the new format may take a while, the GASB hopes that the new model will improve comparability of financial statements among communities and will provide a better matching of the current year's revenue sources to the full cost of services provided during that year.

## **NEW FINANCIAL STATEMENT FORMAT (continued)**

Accumulating the information necessary for the new financial statement format has meant a significant amount of work for the Township's Clerk, Fiscal and Human Resources, Treasurer, and Public Works offices. The Township's staff has worked hard, preparing the necessary schedules, as well as assisting and cooperating with the audit work being done on those schedules.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

## **FINANCIAL RESULTS**

For the year ended December 31, 2003, the Township's General Fund fund balance was reduced by approximately \$1.7 million dollars. The poor economy has continued to affect the General Fund fund balance. The Township has been able to weather the economic downturn over the past few years due to having a healthy fund balance which was built up in years of good economic growth. However, the General Fund fund balance has dropped down to a level that is only approximately 3.3% of annual expenditures as of December 31, 2003. The combined General, Police, and Fire Funds fund balance is equal to approximately 4.6% of these funds annual expenditures.

At December 31, 2001, the combined fund balance was equal to approximately 19% of annual expenditures. This is a decrease of 14.4% over a two year period. As you are well aware, this decrease has been caused by the following factors:

- Cuts in state shared revenue;
- Significantly reduced interest rates
- Flat building activity
- Significant increases in health care costs and pensions
- Significant increases in general liability insurance.

The Township has begun an internal process of evaluating expenditures and eliminating certain expenditures in order to combat the decreasing revenue stream. We would strongly encourage the Township to consider taking its financial planning one step further (from both an operational and capital perspective) over a multi-year period. The Township should continually review its long range financial plans through the use of a five year plan model in order to ensure continued financial viability over the long-run in this uncertain municipal environment.



## **BANK RECONCILIATIONS**

Two years ago the Township began a process of reviewing its bank reconciliation process, with a goal of streamlining the process to allow quicker, more accurate reconciliations to be performed on a monthly basis. Several improvement opportunities were identified, including changes to the structure of bank accounts, use of automated activity tracking reports, and increased detail in recordkeeping (tracking common account activity by individual fund).

During 2003 we noticed improvement in the bank reconciliation process, mostly through the additional efforts of both the Treasurer's office and the accountant. We applaud this effort. Further, we continue to believe that streamlining the process is the right long-term answer for the Township.

We understand that most of the changes to the bank account structure are occurring in 2004. We would encourage the Township to complete the implementation of automated activity tracking (through Crystal reports) and the increased detail in recordkeeping (tracking common account activity by individual fund). We are optimistic that with these changes in place, the monthly bank reconciliation process will become both timely and accurate.

## **OTHER ACCOUNTING MATTERS**

### **General Ledger Account Reconciliations**

We noted several accounts that did not appear to be properly reconciled to their source documentation at year-end. The large unreconciled accounts include delinquent personal property tax receivable, delinquent water and sewer receivable, and special assessment receivable. The delinquent taxes and the special assessments should be reconciled annually, while the delinquent water and sewer should be reconciled periodically throughout the year.

The process of reconciling property taxes to the general ledger may be an easier task for the Township if the process incorporates the use of the Township's general ledger software system. Setting these entries up as recurring in the Township's general ledger system will help to promote accuracy and timeliness of financial data recorded in the general ledger.

### **Other Items**

During our review of the engineering construction inspection deposit account, it was noted that no formal method of tracking this account is currently in place. The Township should consider instituting a method of recording the receipt of the bonds and the refunds that take place. In addition, the bond accounts should periodically be reconciled to the general ledger to ensure accuracy in recording these transactions.

Board of Trustees  
Charter Township of Waterford

May 28, 2004

**OTHER ACCOUNTING MATTERS** (continued)

In addition, the Township charges various fees for construction and related permits. The Township should consider periodically reviewing these fees to ensure they are covering the related costs of the Building department (i.e. inspections, etc.). The Township should continue to be mindful of the State Construction Code Act in establishing these types of fees.

During our review of the accounts payable system, it was noted that various vendors have more than one vendor number and that different vendors have the same address assigned to them. The Township should consider reviewing and correcting the vendor listing to ensure every vendor has only one vendor number and each vendor has the correct address assigned to it. This will help to ensure accuracy and easy tracing of invoice payments.

Yours truly,

Plante & Moran, pllc



Joseph C. Heffernan



Kathryn J. Kercorian